ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME VI | JULY, 1949 | NUMBER 7

HIGHLIGHTS OF BUSINESS IN JUNE

The continued decline in June reflected heavy inventory liquidation with other economic factors relatively stable. Steel production was down to 79.9 percent of capacity in the last week of the month, and the Federal Reserve Board index of industrial production was expected to fall under 170 in June, as compared to 174 in May.

Wholesale prices declined about 2 percent during the month. Most of the decline was concentrated in farm products, particularly livestock and meats. Though wholesale prices have now been declining for the past ten months, the general price level has fallen remarkably little, as noted by the special article on page 8.

Sales Taper Off, Inventories Drop

Retail trade remained at about April level during May. Latest reports on department store sales indicate that the slight May gain was lost in June; the Federal Reserve Board weekly index of department store sales averaged about 4 percent below June of last year.

Manufacturers' sales and inventories declined in May. On a seasonally adjusted basis, sales dropped $600 million to $16.1 billion, and the book value of manufacturers' inventories declined $550 million to $30.7 billion at the end of May.

Inventories in retail and wholesale trade also declined in May. Only a fraction of the $1.2 billion decline in manufacturing and trade was of a seasonal character. Preliminary indications are that seasonally adjusted book values declined $2.5 billion in the second quarter — an annual rate of $10 billion. Since prices were down only a little, the bulk of this represents physical liquidation. When this liquidation ceases, production will again move up into balance with consumption.

Labor Force Rises Seasonally

Almost 1.5 million new workers sought work in June, swelling the labor force to 63.4 million. Over 60 percent of these new entrants were able to find work, with the result that civilian employment rose to 59.6 million. Most of the increase was concentrated in agricultural employment, which rose by 720,000. Nonagricultural employment also increased and, at 49,900,000, is 200,000 above May.

Concomitant with the rise in employment, unemployment increased by 490,000 to 3,780,000 — the highest level since early 1942. However, virtually all of this increase occurred among the new job-seekers; no increase in unemployment was reported among adults over 25 years of age.

Capital Expenditures to Remain High

Expenditures for new plant and equipment by American business, exclusive of agriculture, are expected to aggregate $4.6 billion in the third quarter of this year. This is about 4 percent below the amounts spent for new plant and equipment in the preceding quarter and in the third quarter of last year. A cut of almost 25 percent in railroad outlays and a 6 percent cut in manufacturing outlays account for the decline.

Despite the fears of recession, capital expenditures are holding up remarkably well. Including these third-quarter estimates, capital outlays in the first three quarters of this period portend to be 0.7 percent above the corresponding period of last year. Electric and gas utilities are mainly responsible for the continued high level; capital outlays so far in 1949 by these firms are running 27 percent above last year.

Construction Outlook Good

Value of new construction in June rose 10 percent over May to $1.8 billion, and is slightly more than the value of construction in June, 1948. At $1.2 billion, private construction was 11 percent below last June, but public construction, which was 13 percent above last June, more than made up for the decline in the private sector.

Construction activity in 1949 is expected to reach $19 billion, 1 percent above last year's record-breaking level, according to revised midyear government estimates. A 5 percent decline in private construction to $13.8 billion is expected to be more than offset by a 23 percent rise in public construction. In the private sector of the economy, residential construction will probably decline to $6.5 billion, 10 percent below 1948. In the private nonresidential area, the sharpest decline is expected in industrial construction, which is expected to fall 28 percent below the 1948 level. Largest increases in public construction are expected in residential and in school and hospital construction — which may rise 135 percent and 50 percent, respectively, above last year's level.

Special feature: PRICE STABILITY AT HIGH LEVEL · By Ruth Birdzell · Page 8

ILLINOIS BUSINESS REVIEW

Published monthly by the

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

V LEWIS BASSIE, *Director* — HILDA R. STICE, *Editor of Publications*

ROBERT FERBER, *Research Assistant Professor*

Research Assistants

RUTH A. BIRDZELL — ANNE N. GHER
JOHN H. BRIEN — RICHARD S. OTWELL

Protection Into Chaos

By and large our imports are determined by the level of economic activity. Imports of industrial materials, the largest category, depend on rates of production. Imports of consumer goods depend upon the flow of income. In April our imports were down about 15 percent from March. In large part, this is a temporary reaction, reflecting the desire to restrict inventories in production and distribution. To that extent at least, imports will recover when inventory policy again changes.

A new factor, tending to block that recovery, has been introduced by the letdown in production and prices. It is the drive for tariff protection. In Congress the battle is shaping up over the extension of the Trade Agreements Act. It is a battle the public may easily lose; for tariffs often go through easily, almost unobserved, but with well-organized, active support.

The Trade Agreements Act has an "escape clause" which permits us to revoke an agreed tariff reduction if it hurts any of our producers. To make doubly sure that industry should lose nothing on account of foreign competition, the Republicans wrote a "peril point" clause into the Act last year, and are now striving to retain it over President Truman's request that it be removed. This clause requires the Tariff Commission to specify the point below which a tariff cannot be reduced without imperiling business. The kind of pressure it creates is reflected in the applications that have already been made to increase import duties or to exclude imports of a variety of products, such as petroleum, lemons, hops, dental burs, nuts, whiskies, olive oil, sponges, and spring clothespins.

Now that it is no longer possible to sell everything that can be produced, domestic concerns would like to have their business sustained by the exclusion of foreign products. Thus, the clothespin producers contend that since their capacity is sufficient to meet the entire demand, they should be given an exclusive market. Frequently, as in the case of petroleum, the drive for protection is sparked by the smaller producers who are placed at a competitive disadvantage when conditions take an unfavorable turn. But the industry as a whole, and the large, efficient producers in particular, reap the benefits of increased prices and profits.

Perhaps the outstanding example of the current drive for tariffs is that of the copper industry. Congressmen of the mining states have introduced bills in both houses to reimpose the two-cent duty on copper imports; and, utilizing their ability to "trade" a sizeable bloc of votes, may get their bills through. Their argument is that if prices continue to drop, the smaller, high-cost producers will have to shut down, increasing unemployment.

What Tariffs Cost

When a tariff is placed on any commodity, a tax is in effect placed on the consumer. It is like a sales tax, but instead of being just several percent is more likely to be ten times as much. At the same time, domestic producers, not being subject to the tariff, obtain a subsidy in the form of a higher price — the subsidy being concealed only because the government does not actually collect the tax and make direct payments to the producers. Often, it is the most outspoken opponents of government controls and interference who advocate this combination of tax and subsidy in an effort to concentrate production for the advantage of the "protected" industry.

Imposition of these taxes on the public for the benefit of specific groups of producers is supposed to bring compensating benefits, particularly reduced unemployment. The fact is, however, that tariffs present no such easy solution to our employment problem.

In this postwar period, the United States has been practically the only country able to produce in excess of its own needs. The rest of the world is either working its way back from the devastation of the war or has never been developed economically to the point of surplus production. In these circumstances, potential demands for our goods have been unlimited, but the problem of financing purchases increasingly restricted shipments. Exports are now well under the peak rate of 1947, though they have been fairly well maintained by rising imports and the European Recovery Program. But how much the rest of the world purchases from us depends entirely on how many dollars it can obtain.

Thus, whenever a tariff reduces imports, it cuts the purchasing power of foreign countries and correspondingly reduces our export markets. Dollar for dollar, export business is as important as domestic business. What the one industry gains, others lose. Our unemployment may be transferred. It cannot be exported.

Profits as well as sales may be shifted to the favored industry, but business as a whole gains nothing, since the domestic market also is cut. Consider, for example, the shifts in farm income. Department of Commerce studies show that for each dollar of decrease in agricultural exports, farm income decreases by $1.60. The loss represents not only the dollar of direct exports but a slight price weakening through the decrease in total demand.

Furthermore, there is a progressive loss of efficiency as trade barriers are increased. Ultimately, everyone would be wasting resources turning out things that others could produce much more efficiently. This waste of resources, involving a loss of production and living standards throughout the world, cannot create the conditions necessary for peace and cooperation in the future.

Mutual Advantage or Chaos

United States trade policy is based on the recognition that there is too much nationalism in the world today, too many efforts to make each country self-sufficient and exclude goods produced abroad. We are forthright in our criticisms of the restrictions imposed by other countries. Yet, we never seem to realize that there is something incongruous about the only nation in the world in a

(Continued on page 6)

ICE CREAM PRODUCTION

The manufacture of ice cream is one of America's fastest growing industries. Within a comparatively short time the ice cream cone and the soda fountain have become typical of the American way of life. Yearly commercial production of ice cream in the United States in 1914, the earliest reliable figure, was only 72 million gallons. Last year's production totaled 569 million gallons, an amount exceeded only in 1946 and 1947, and an average of 3.9 gallons for each person in the nation.

Illinois, the fourth ranking state in ice cream production, manufactured 36 million gallons in 1948. There were 182 ice cream plants with yearly capacities in excess of 25,000 gallons in Illinois last year. In addition, there were a number of smaller plants and over 800 counter freezers in stores making their own ice cream from a prepared mix. Since the importance of the ice cream industry in a state depends on the relative population of its urban centers, Chicago is largely responsible for this state's position as a leader in ice cream production. Some of the large plants in Chicago produce over 4 million gallons a year, and reflect the recent trend toward the servicing of wide areas by the big-city ice cream manufacturers.

A Nutritious Food

The ice cream industry has fought for years to establish its product as a food rather than a confection. It has pointed out that, because of its milk and cream content, ice cream is a balanced food in concentrated form, and that a quart of ice cream contains not only the energy equivalent of a pound of ham or two pounds of chicken, but vitamins A, B, C, and D as well. In 1947 over 6 percent of the nation's milk supply went into the production of ice cream. Only butter and cheese use a larger amount in their manufacture.

Besides the dairy products involved, the industry uses vast quantities of fruits, nuts, flavors, and sweeteners, and additional amounts are used at soda fountains. The most popular ice cream flavors are vanilla, chocolate, strawberry, and peach. Sherbets and ices are usually prepared in small batches as secondary products. Illinois is second only to California in sherbet production, and contributes 12 percent of the nation's output.

Methods of Production

Ice cream is made from a mix, frozen and whipped until its bulk almost doubles. Fresh milk and cream make the best ice cream and are the major ingredients of a mix. Each type of mix must be balanced to meet legal requirements and have the proper proportions of butterfat, milk solids, sugar, and stabilizer necessary for desirable texture and flavor. Fast freezing and hardening are essential to finely textured ice cream. There are four distinct phases of freezing, lowering the temperature to the freezing point, freezing a portion of the water in the mix, incorporating air by whipping, and hardening the finished product in cans or cartons after it leaves the freezer. While small producers may still use the batch type of freezer, large plants almost all use continuous freezers which operate constantly and are refrigerated by continuously circulating liquid ammonia. Modern methods stress continuous operation, and many plants carry the product through the various stages of combining, pasteurizing, and cooling ingredients, and coloring, flavoring, and freezing the mix as a continuous process. There is a constant flow of the mix into the various freezers where it is frozen and whipped, then piped into cans or containers which are rushed to the hardening rooms where temperatures as low as 40 below zero are maintained. Some of the larger plants have freezers producing up to 350 gallons of ice cream per hour using this assembly line technique.

Development of the Industry

Commercial ice cream production is still an infant industry, a product of the twentieth century. Ice cream itself, however, is the result of an evolution covering 500 years. Recipes for making water and milk ices were said to have been brought to Europe from Asia by Marco Polo, who visited Japan in the 15th century. The first real ice cream was made in Paris in 1774 for the King of France, and in a short time the American colonists were enjoying the new dessert. In one of his personal letters, George Washington tells of buying a machine for making ice cream. Later, Dolly Madison ordered the confection served at the White House on all state occasions.

The wholesale ice cream industry started in 1851 when a Baltimore milk dealer began making ice cream to use up his surplus dairy products. He was soon devoting his entire plant to the new product, which he sold for $1 a quart. Ice cream was first made commercially in Illinois in 1885. The industry's rapid growth did not begin until around 1890, after the invention of mechanical refrigeration. The invention of the ice cream cone, first sold in 1904 at the St. Louis World's Fair, materially increased the sale of ice cream. By the middle 1920's large scale production and machine methods were applied to ice cream production, and the industry expanded rapidly.

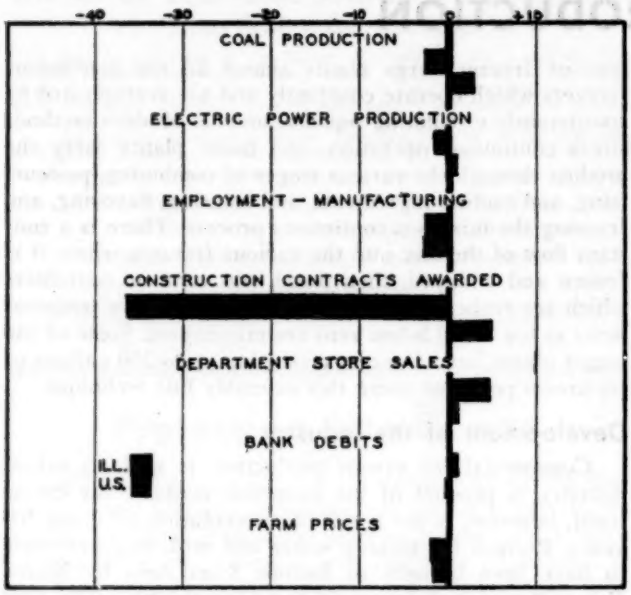
More and more food stores are handling ice cream products, a practice begun by the large chains which has spread rapidly and has greatly extended distributing facilities. Other recent trends in the manufacture of ice cream have been the increasing importance of the cup and stick forms, and the West Coast innovation, pre-formed servings. The latter are individual scoops of ice cream packaged in small cups and have the advantage of both sanitation and economy. Easy and quick to handle, the standardized servings also eliminate improper dipping.

Once referred to as the "balance wheel of the dairy industry" because its greatest demand comes in the summertime when surplus milk has to be marketed, ice cream production has created a huge new market for the dairy products and fruit produced on American farms. Once its innate food value is fully recognized, ice cream may cease to be thought of as a warm weather confection and become a year-round part of the nation's diet.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage Changes April, 1949, to May, 1949



ILLINOIS BUSINESS INDEXES

Items	May, 1949 (1935-39 =100)	Percentage Change from April 1949	Percentage Change from May 1948
Electric power[1]	240.2	− 1.2	+ 2.3
Coal production[2]	112.2	− 2.5	−23.8
Employment—manufacturing[3]	114.6	− 2.4	− 6.7
Payrolls—manufacturing[3]	262.2	− 2.0	− 4.3
Dept. store sales in Chicago[4]	238.7	+ 4.2	− 4.5
Consumer prices in Chicago[5]	174.2	− 0.5	− 0.4
Construction contracts awarded[6]	302.8	−36.2	−22.8
Bank debits[7]	277.7	+ 0.8	+ 1.9
Farm prices[8]	223.4	− 1.6	−21.0
Life insurance sales (ordinary)[9]	179.1	− 0.9	+ 3.6
Petroleum production[10]	243.5	+ 3.8	+ 2.0

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Coop. Crop Repts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

UNITED STATES MONTHLY INDEXES

Item	May 1949	Percentage Change from April 1949	Percentage Change from May 1948
	Annual rate in billion $		
Personal income[1]	212.2[a]	− 0.1	+ 1.4
Manufacturing[1]			
Sales	193.2	− 4.7	− 4.2
Inventories	30.8[b]	− 1.6	+ 4.8
New construction activity[1]			
Private residential	6.4	+20.4	−15.2
Private nonresidential	7.0	+ 6.8	− 2.7
Public nonresidential	5.3	+19.1	+28.9
Foreign trade[1]			
Merchandise exports	12.9	− 6.2	− 2.3
Merchandise imports	6.5	+ 0.9	− 1.8
Excess of exports	6.4	−12.4	− 2.7
Consumer credit outstanding[2]			
Total credit	15.8	+ 1.4	+10.7
Installment credit	8.9	+ 3.0	+21.4
Business loans[2]	13.6[b]	− 3.8	− 4.1
Cash farm income[3]	n.a.	n.a.	n.a.
	Indexes (1935-39 =100)		
Industrial production[2]			
Combined index	174[a]	− 2.8	− 9.4
Durable manufactures	201[a]	− 5.6	− 9.0
Nondurable manufactures	161[a]	− 0.6	− 9.6
Minerals	146[a]	− 1.4	− 9.9
Manufacturing employment[4]			
Production workers	148	− 2.3	− 7.2
Factory worker earnings[4]			
Average hours worked	103	+ 0.8	− 3.3
Average hourly earnings	230	− 0.1	+ 5.7
Average weekly earnings	237	+ 0.7	+ 2.4
Construction contracts awarded[5]	372	+ 4.3	− 9.4
Department store sales[3]	296	+ 0.7	− 3.0
Consumers' price index[4]	169	− 1.3	− 0.8
Wholesale prices[4]			
All commodities	193	− 0.8	− 5.2
Farm products	225	+ 0.4	− 9.5
Foods	207	+ 0.6	− 7.6
Other	181	− 1.4	− 1.9
Farm prices[3]			
Received by farmers	239	− 1.5	−11.4
Paid by farmers	196	− 0.4	− 2.0
Parity ratio	104[c]	− 1.9	−10.4

[a] Seasonally adjusted. [b] As of end of month. [c] Based on official indexes, 1909-14 = 100.
[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1949					1948
		June 25	June 18	June 11	June 4	May 28	June 26
Production:							
Bituminous coal	thous. of short tons	1,963	369	2,160	1,850	1,881	2,126
Electric power by utilities	mil. of kw-hr.	5,466	8,373	5,300	5,018	5,270	5,257
Motor vehicles (Wards)	number in thous.	145.4	139.0	130.1	92.0	111.3	89.1
Petroleum	thous. bbl.	4,889	4,868	4,876	4,889	4,897	5,494
Steel	1935-39 = 100	174.3	179.0	184	189.6	194.3	194.2
Freight carloadings	thous. of cars	803	649	808	699	785	888
Department store sales	1935-39 = 100	247	285	288	259	275	262
Commodity prices, wholesale:							
All commodities	1926 = 100	153.2	154.8	156.1	156.1	156.5	167.0
Other than farm products and foods	1926 = 100	145.0	145.2	145.3	145.8	146.2	149.4
28 commodities	August, 1939 = 100	230.3	231.2	232.8	235.8	241.8	331.0
Finance:							
Business loans	mil. of dol.	13,292	13,385	13,424	13,476	13,628	14,355
Failures, commercial	number	196	196	174	165	206	111

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

Production Slackens Further

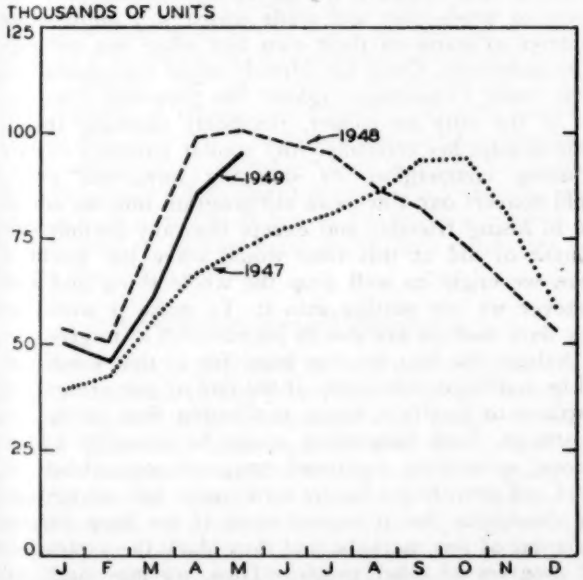
Industrial production in May declined for the fifth consecutive month, the Federal Reserve index of industrial production falling to 174 percent of the 1935-39 average. The chief factor cited by the FRB for the decline was a drop in the output of durable goods. Nondurable production, already down somewhat from the peak, held up fairly well. Among the durables, however, automobile production and sales continue at high rates. Following May's slump, caused by strikes and other labor difficulties, automotive output in June jumped 50,000 units weekly to a total of more than 140,000 cars and trucks in the week ended June 25. The steel industry, facing a slackening demand for its products, cut weekly production during this month from 91.8 percent of rated capacity to 79.9 percent, turning out nearly 200,000 tons, or 13 percent, less in the last week of June than in the first.

Construction of New Dwellings Rises

As shown in the accompanying chart, the number of new nonfarm housing units started increased from 86,000 in April to 95,000 in May. In May, housing starts were still somewhat below May, 1948, but June starts were expected to equal or exceed the previous year's figure. Starts so far in 1949 have been exceeded since the middle twenties only by the peak year of 1948, when early starts were encouraged by rising prices. Surveys indicate that most of the decrease in housing demand affects the more expensive units since there are still plenty of buyers for lower-priced dwellings.

The Department of Commerce estimates that value of new construction in 1949 may go as high as $19 billion, a new record just slightly above 1948 construction. Most of the increase over an earlier estimate of $18.75 billion is attributed to greater than anticipated outlays in two categories, public works and privately-owned public utilities. It is pointed out that physical volume may exceed that of 1948 because of price decreases. Public construction is expected to amount to more than $5 billion, 23 percent over 1948, whereas private construction is expected to decline about 5 percent to $13.8 billion.

HOUSING STARTS



Source: U. S. Department of Commerce.

Employment and Unemployment Rise

Unemployment rose by 490,000 in June to a seven-year high of 3,780,000. However, the increase was primarily caused by the entrance of well over one million summer workers into the labor force, about a third of whom were unable to find jobs. An encouraging aspect of this month's report on the labor force is that nonagricultural employment rose by 200,000, reversing the decline of the last few months. Agricultural employment increased substantially as farm work attained its annual June peak. The following tabulation shows data on the labor force for June and selected months in thousands of workers:

	June 1949	*May 1949*	*June 1948*
Civilian labor force	63,398	61,983	63,479
Employment	59,619	58,694	61,296
Agricultural	9,695	8,974	9,396
Nonagricultural	49,924	49,720	51,899
Unemployment	3,778	3,289	2,184

In contrast with May, when numerous labor disputes took place, June was relatively quiet. The only major stoppage was the uneventful one-week "stabilizing period" ordered by John L. Lewis for 450,000 United Mine Workers. A strike which was more or less expected to follow the annual vacation failed to materialize when Lewis broke the union's no-contract, no-work rule and instructed UMW members to work three days a week though their work contract had expired on June 30. Negotiations were also started in other important industries, such as automobiles, steel, and electrical equipment. The emphasis in the current negotiations is apparently centered more on pensions, welfare provisions, and other "fringe" issues than on outright wage increases.

Sales Tend Downward

After adjustment for seasonal variations, retail store sales in May were substantially the same as in April, the retail sales index of the Department of Commerce dropping only one point to 332 in May (1935-39 = 100). In dollar value, sales dropped more than $300 million, a slight increase in durable goods sales being more than offset by a decline in sales of nondurables.

Manufacturers' sales dropped $700 million from the April level, to a total of $16.1 billion in May. However, the physical volume of sales remained about unchanged, as most of the decline in the dollar value of sales was caused by falling prices. About two-thirds of the decline in dollar sales volume occurred in durable goods, which fell from $7.2 billion to $6.8 billion. Nondurable goods sales declined from $9.6 billion to $9.3 billion; approximately one-third of the drop was attributed to seasonal factors.

The book value of manufacturers' inventories was down $550 million from the April level to $30.7 billion, after seasonal adjustment. Most of the decline took place in durables, with nondurable goods inventories off less than $100 million.

Credit Controls End

Federal Reserve Board control of consumer credit ended June 30, when the authorization for credit control previously granted by Congress to the Board expired. As a result, sellers may now set their own rules on down

payments, on time allowed for repayment, and on size of installments. Board officials expected no substantial changes in the handling of credit to customers, since Regulation W controls have been relaxed twice in recent months and many sellers have been granting less lenient credit terms than permitted by law.

At the same time, the Federal Reserve Board's authority to increase bank reserve requirements ended. Consequently such requirements will drop back to where they were before the passing of the wartime emergency laws — to 24 percent against net demand deposits for New York and Chicago banks, 20 percent for other reserve city banks, and 14 percent for country banks, and 6 percent against all time deposits.

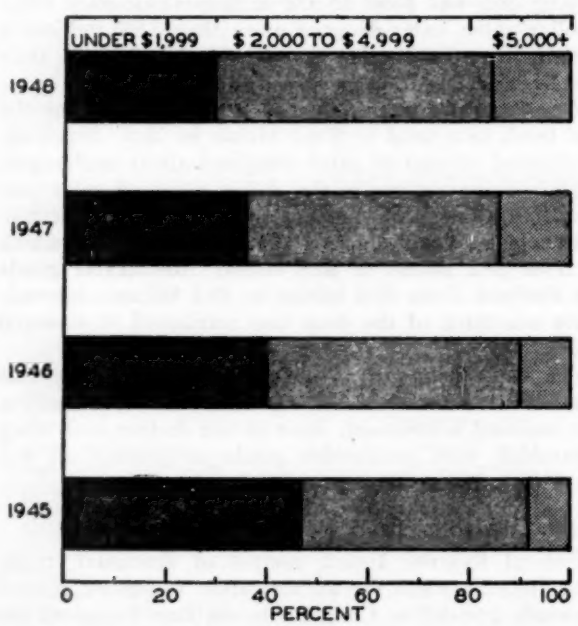
Financial Position of Consumers Strong

The 1949 Survey of Consumer Finances sponsored by the Federal Reserve Board reveals that consumers appear to be maintaining the strong financial position attained in the early part of 1948. The accompanying chart illustrates the movement from lower to higher income groups that has taken place over the last four years. More than half of the spending units (relatives living in one dwelling and pooling their incomes) reported higher incomes in 1948 than in 1947. Higher incomes were more frequently reported among spending units earning less than $4,000 in 1947; about 3.5 million more spending units earned $3,000 or more in 1948 than in 1947.

Although the number of spending units owning some liquid assets has risen, the proportion owning liquid assets has declined since the end of the war because of the even faster increase in the total number of spending units. However, the purchasing power of consumers remains high, as indicated by the fact that about 7 in every 10 spending units owned some liquid assets early in 1949.

The potential demand for durable consumers' goods appears to be as strong now as last year. Consumers intended to buy in 1949 more automobiles and as many houses as they had intended to buy in 1948. Purchases of other durable goods were expected to be only slightly lower than last year's record levels.

CONSUMER INCOME DISTRIBUTION



Source: Federal Reserve Board.

Protection Into Chaos

(Continued from page 2)

position to carry on trade on an unrestricted basis insisting that that is the basis on which trade should be carried on everywhere.

Generally speaking, the import controls set up in most countries make a real effort, by restricting luxuries, to provide essentials and protect reserves. The basic issues from their point of view are: Do they get what they want or do they have to take what somebody wants to send them? And do they have to leave themselves without reserves, unprotected against future contingencies, to obtain current necessities? In this context, their restrictions accomplish more than our own "protection" measures, in a franker way and with more reason.

Efforts on our part to break down these controls won't produce the results we hope for. The alternative of devaluation, advocated by some of our highest officials, cannot solve the dollar shortage more effectively, because it does not help transfer any goods from the dollar area. It does help to balance a country's trade, by moving out more of its production and making more costly the things it buys, but it does this indiscriminately and thus eliminates the opportunity to select the things needed most.

The British agreement with Argentina has been termed a wholly selfish effort to exclude our competition. But both countries have been facing serious dollar deficits. Unless it can be shown that they could solve their problems in another way, it is useless to argue that competitive pricing should determine trade flows.

From the foreign viewpoint, our actions are also advantage-seeking, and not always in accord with our expressed views. When we reinforce "escape clauses" with "peril point" pressures, and move to increase tariffs, our speeches about free trade do not sound convincing. Our failure to ratify the Charter of the International Trade Organization looks very much like a desire to keep ourselves free for "protection." And our belated ratification of the International Wheat Agreement seems motivated more by a desire to get rid of surpluses than to participate in a cooperative solution of world problems.

In showing so much concern for "protection" we are hardly moving in the direction of establishing the conditions of production and trade which will allow other countries to stand on their own feet after our aid programs terminate. Chile has already made representations to the State Department against the proposed reimposition of the duty on copper, justifiably claiming that it would disrupt her economy. Any similar tendency toward excluding competition, or dumping unwanted goods, would convert our European aid program into an adventure in losing friends; and except that any serious curtailment of aid at this time would leave the world in chaos, we might as well drop the whole thing and save whatever we are putting into it. To make it work, we must show that we are able to take as well as to give.

Perhaps the best we can hope for is that conditions will be stabilized sufficiently at the end of our present aid programs to justify a large, continuing flow of foreign investment. Such investment would be mutually advantageous, promoting continued progress throughout the world and providing a longer-term outlet for our savings. The conditions for it cannot exist if we keep foreign goods out of our markets, and thus block the aspirations and progress of other peoples. Then, we may find ourselves looking for security in a cynical and hostile world.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

New Textile From Corn

Science has discovered still another use for the nation's leading farm crop. Corn protein is now being used to make a new textile fiber which, when woven into cloth, is said to be soft, warm, and water and moth repellent. The cloth, known as Vicara, is said to have considerable absorbency and tensile strength, and to be as water-resistant as wool. Commercial production of the new fabric has already begun in Taftville, Connecticut, in a plant recently constructed by the Virginia-Carolina Chemical Corporation.

Taft-Hartley Act

A new bulletin of the Institute of Labor and Industrial Relations, *Administration of the Taft-Hartley Act,* considers court decisions relating to the Taft-Hartley Act during the period from the passage of the law in June, 1947, to the end of 1948. It describes the cases in which interpretive decisions were made by the National Labor Relations Board and the courts which have affected the operation of the law. These decisions, which will have an important bearing on future labor legislation, include cases on union and employer unfair labor practices, the use of the injunction, representation and election procedures, damage suit provisions, coverage of the act, constitutionality of the affidavit requirement, and the ban on union political expenditure.

Cost Cutting

"Tell Employees Why Costs Must Be Cut" is the subject of an article in the June issue of *Factory Management and Maintenance.* Emphasizing that employee cooperation is the key to successful cost cutting, the article tells how to "sell" cost reduction to the workers by using the supervisor as a channel of communication. Positive leadership on the part of the foreman is necessary in explaining the "why" and "how" of cost reduction. It should be the foreman's job to make the rank and file feel a part of the production picture. By finding out the workers' problems and opinions he can nip in the bud any employee sentiment that management isn't serious about cost cutting or isn't familiar with the problems of production. If employee opinion is ignored, cost cutting pressure is likely to breed fear, insecurity, and suspicion. Supervisors must be kept informed on company plans and policies if they are to give their subordinates straight facts showing why costs must be cut. A number of examples are given of methods used by various firms to tell their employees the reasons for cost reductions.

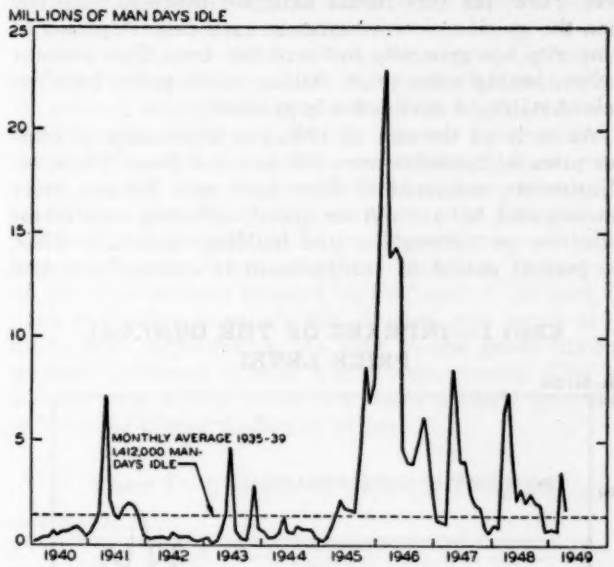
Financing Small Business

A recent booklet published by the Department of Commerce is designed to aid proprietors who are trying to raise capital, either for expansion or the initial financing of small businesses. Sound advice and correct information are invaluable in such ventures, and the Department of Commerce has sought to answer in this booklet the numerous inquiries it has received about the financial considerations involved in the establishment of a small business. The booklet is available from either the Chicago or Milwaukee offices of the Department of Commerce.

Work Stoppages

According to an article entitled "Work Stoppages During 1948" in the May issue of the *Monthly Labor Review,* no significant change in the general level of strike activity occurred last year, and the recorded idleness of 34 million man-days was only slightly less than the corresponding total for 1947. In the first four months of 1949 there were less than half as many man-days idle as in the corresponding period last year. As shown in the chart, 1948 work stoppages were more similar than those of 1947 to the monthly trends in other recent years. Since the passage of the Taft-Hartley Law, strike activity has been substantially less than in the period following the end of the war, although it has been greater than in the prewar period. The article includes a detailed account of the individual stoppages responsible for a major portion of the 1,960,000 workers involved in strikes last year.

IDLENESS DUE TO WORK STOPPAGES



Source: Bureau of Labor Statistics.

Durable Equipment

Over 8 percent of the gross national product in 1948 and the first quarter of 1949 was spent for producers' durable equipment. The average for the 1929-1941 period was 5 percent, with the highest proportion just over 6 percent. Current and future demand for producers' durable equipment is discussed in the June *Survey of Current Business.* Deferred growth and increased mechanization of production are largely responsible for the high current rate of equipment outlays, which has been an important factor in the postwar economy. The long run level of equipment outlays necessary to maintain a growing economy over the next decade will be two or three times that of the 1920's, even after adjustment for price changes. Aggregate 1948 outlays were even higher than this long run level. Although deferred growth and replacement needs could maintain outlays at the 1948 rate for several years, a decline is expected long before the backlog of demand is satisfied.

PRICE STABILITY AT HIGH LEVEL

RUTH BIRDZELL, Research Assistant

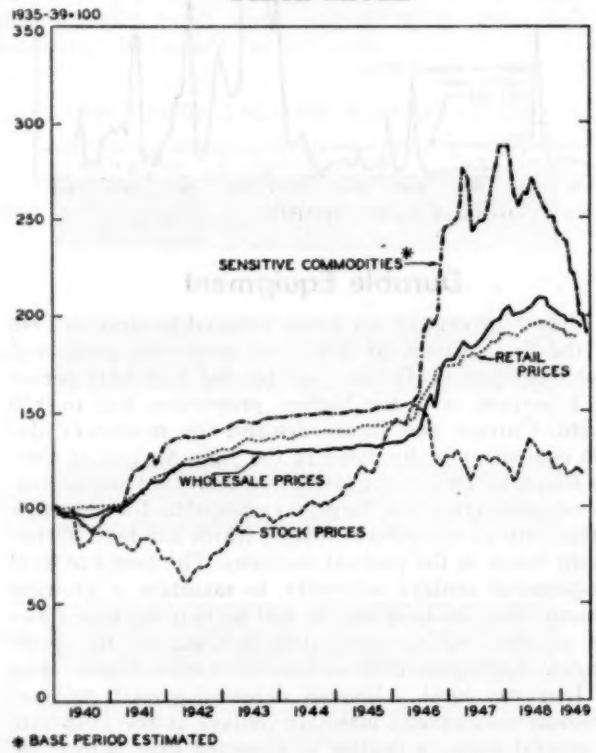
Considered in the perspective of war and prewar conditions, changes in the general price level during the last two years have been relatively limited. In recent months, despite frequent fits of nerves, prices in general have actually continued on a fairly stable plane. As is usual in the initial stages of recession, while near-boom rates of operation still prevail, prices tend to be maintained at the expense of volume. This may account in part for recent sharp cutbacks in production schedules.

War-induced shortages have disappeared in most lines, and it is becoming increasingly apparent that a postwar shakedown of prices is in progress. After the removal of price controls, backlogs of demand were large and consumers were taking almost anything at nearly any price, so that prices were probably boosted too far. In this situation, they were bound to drop back to lower levels as supplies of commodities increased and demand backlogs were filled.

Historically, prices following a war recede quickly from the peak of inflation, perhaps halfway to the prewar level. How far this initial deflation proceeds, depends upon the specific circumstances in each case. A period of prosperity has generally followed this immediate postwar decline, lasting some years, during which prices have remained stable, or declined only gradually.

As early as the end of 1946, the beginnings of postwar price adjustments were felt in a few lines. These readjustments, scattered at first, have now become more concentrated, but are still not greatly affecting such major industries as automobiles and building materials. Thus, the present period of readjustment is essentially a continuation of what has been going on for some time; and the fact that relative stability has been maintained in recent months suggests that we are moving into the longer prosperity period without the sharp price deflation usually experienced after a war.

Chart 1—INDEXES OF THE GENERAL PRICE LEVEL



Source: BLS; Standard and Poor's.

Recent Declines Limited

Except where a large speculative element exists, prices of most commodities have declined relatively little in the past few months. Chart 1 shows that the general price level, as measured by either wholesale or retail price indexes, is still very much above the 1940 average. Indeed, it has yet to fall anything like half-way to the mid-1946 level when OPA controls were still effective.

In contrast is the behavior of primary commodities, which are more sensitive to changes in economic conditions. The BLS index of 28 sensitive commodities has undergone a substantial post-boom decline. These prices rose much faster than other prices, to almost 300 percent of the 1935-39 average (which was estimated from partial data for purposes of comparison on this chart). Subsequently, they also fell much faster, yet recent declines have only brought them back into line with other prices; and they are still considerably above the early 1946 level.

Prices of common stocks show still another pattern—an inverse relationship to commodity prices in the postwar period. Whereas the latter rose substantially, stock prices as shown by Standard and Poor's index have completely discounted the postwar boom in prices, profits, and production, and slumped to a level only a little more than 20 percent above the average for the prewar years from 1935 to 1939. They have continued to fluctuate about this level for nearly three years. Despite the almost total absence of speculation and the fact that good quality stocks are now excellent investments paying returns of seven percent or more, fears persist of a bust on the order of 1929. This is not unlike the situation in 1922-23, when stock prices also lagged in relation to corporate earnings and dividends.

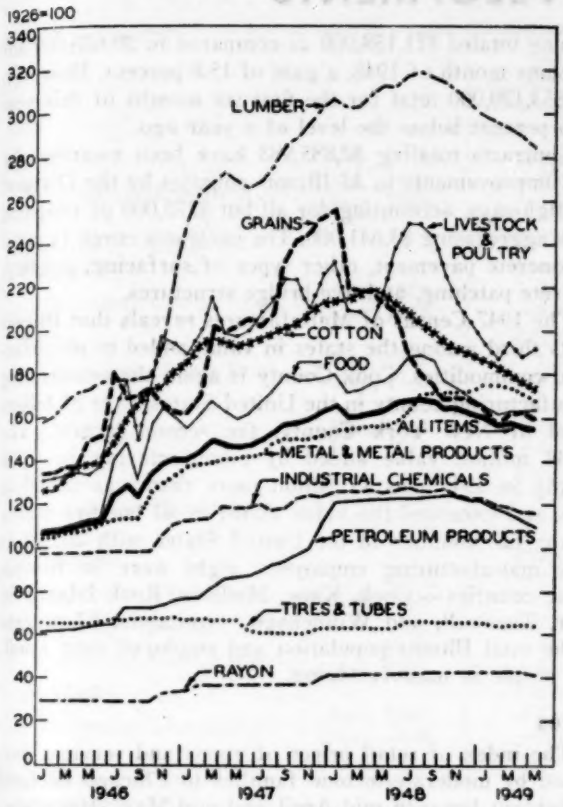
Wholesale Prices Holding Near Peak

It may be seen from Chart 1 that wholesale prices and retail prices have been drawing closer together, at the same time that they have been slacking off slightly, with retail prices remaining somewhat more steady than wholesale prices. This is partly caused by the added element of overhead in retail prices, which acts as a stabilizer.

Whereas wholesale prices in general have shown only a minor decline, some of the component groups of the index show much greater changes and widely divergent movements. Chart 2 reveals that, as a rule, those items which rose fastest and farthest have also been marked with the greatest declines, a notable exception being lumber, which has shown only a slight decline. Such groups as grains and livestock, in the farm products category, are among the products making substantial postwar advances followed by large declines in the last 12 to 18 months. Cotton goods prices also advanced considerably and have now dropped back to the October, 1946, level. Foods, it may be seen, have fluctuated less, and now are at the level reached in the immediate post-OPA climb.

Some of the other major groups have risen gradually, and readjustments within these groups are comparatively

Chart 2 — WHOLESALE PRICE TRENDS



Source: Bureau of Labor Statistics.

recent. Metals and metal products and petroleum and its products are still near their peak levels, having turned down only since the beginning of 1949. In the metals group, the steel industry has maintained its prices; but the price of steel scrap has fallen sharply, partly because the steel industry has been drawing down scrap inventories and using a larger proportion of iron ore. It should be noted in connection with steel prices that the movements shown by the index do not truly reflect actual market conditions because the nominal prices quoted do not take all price elements into account, particularly the high prices of the recent substantial gray market in steel, though such overcharges are now pretty well eliminated.

Price administration keeps prices from rising as fast or as far as more competitive prices; and this factor may be one reason for the low, stable prices of rayon goods and tires and tubes. Another reason is the fact that both these industries have expanded greatly and have benefited from improved manufacturing techniques. These factors have enabled firms in the two industries to maintain production and profits even at low prices.

Since the beginning of 1948 there has been a tendency for the price indexes of the various groups to converge. The gap between the high and low groups in the middle range has decreased considerably, being now only about one-half its maximum size. The few items at the extremes, such as lumber, may not come back into line for some time, if ever.

Consumers' Prices Steady

Despite the impression conveyed by current reports of declines in consumer prices, there has been little change in the index for several months (Chart 3). The only group showing any sizeable decline is foods, which fell 8 percent to 200 percent of the 1935-39 average before turning back up, and this was the group showing the largest increase since the end of OPA. Food prices account for about one-third of the all-item index, so that in the absence of large changes in the other components the index chiefly reflects changes in food prices. Chart 3 illustrates this point, showing that slight declines in prices of housefurnishings, apparel, and fuel-electricity-and-ice, which comprise about 20 percent of the weights in the index, were insufficient to offset the rise in food prices which occurred in March and April.

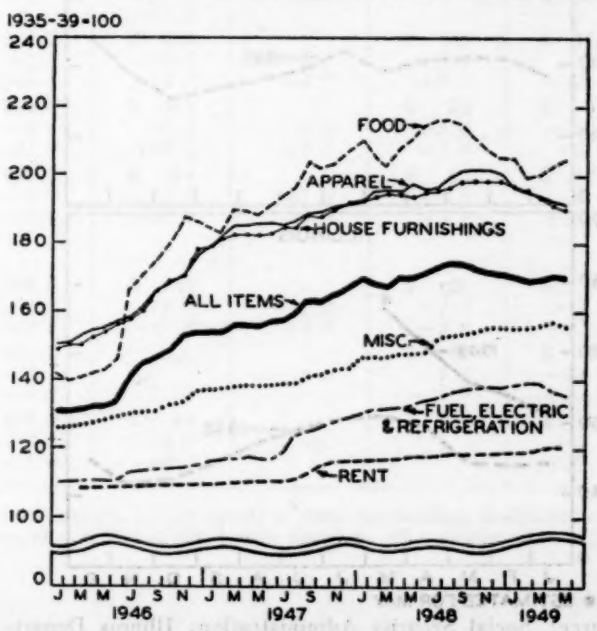
It should be noted, in connection with consumers' prices, that this index is not the same as the retail price index shown in Chart 1. Whereas the retail price index includes only goods sold in retail stores, the consumers' price index includes rents and services as well as goods.

Food, apparel, and housefurnishings, even though they have fallen somewhat from their peaks, are still far above the mid-1946 levels, and have not as yet fallen even to the level of the end of 1946. Rents, weighted at 18 percent of the all-item index, are still low in comparison with the other components. They have been kept low through control, but with easing of the controls in the new rent law, rents may be expected to increase as long as the housing shortage continues.

Although some groups of consumers, especially those with fixed incomes, have felt the pinch of higher prices, in general, wage rates have risen more than have commodity prices. Thus, personal incomes have generally risen much more than prices, and although down somewhat, are still on a comparable level with prices.

While the present price situation does not, perhaps, warrant unrestrained optimism, it would seem that unrestrained gloom is even more unwarranted. The passing of the huge postwar demand backlog and of the need for peak production to satisfy that demand was bound to require price adjustments. As long as the gross national product continues at high levels — the present $250 billion, or even a little lower — it seems unlikely that there will be any drastic decline in prices.

Chart 3 — CONSUMER PRICE TRENDS



Source: Bureau of Labor Statistics.

LOCAL ILLINOIS DEVELOPMENTS

In May, most Illinois business indicators, like those of the nation, exhibited further declines. Manufacturing employment and payrolls continued to drop. Electric power and coal production were about 1 percent and 3 percent, respectively, below the levels of April. Consumer prices in Chicago fell less than 1 percent during the month, while farm prices extended their long slide downward. Construction contracts awarded showed a marked decline, in contrast to the national total which increased slightly.

Labor

As indicated by the chart on this page, unemployment insurance continued claims (waiting period claims plus compensable claims) have followed a somewhat similar trend in Illinois and in the United States. In both the United States and Illinois the margin over 1948 has been increasing, except for a decline in claims in April for the nation. However, the rate of increase in unemployment has apparently been greater for the state than for the nation as a whole, since claims in Illinois between January and May have jumped 76 percent as compared to a rise of only 38 percent for the United States over the same period.

The Mt. Vernon rail car plant will be shut down temporarily in August due to lack of orders, according to a company official. The plant normally employs between 1,200 and 1,300 persons.

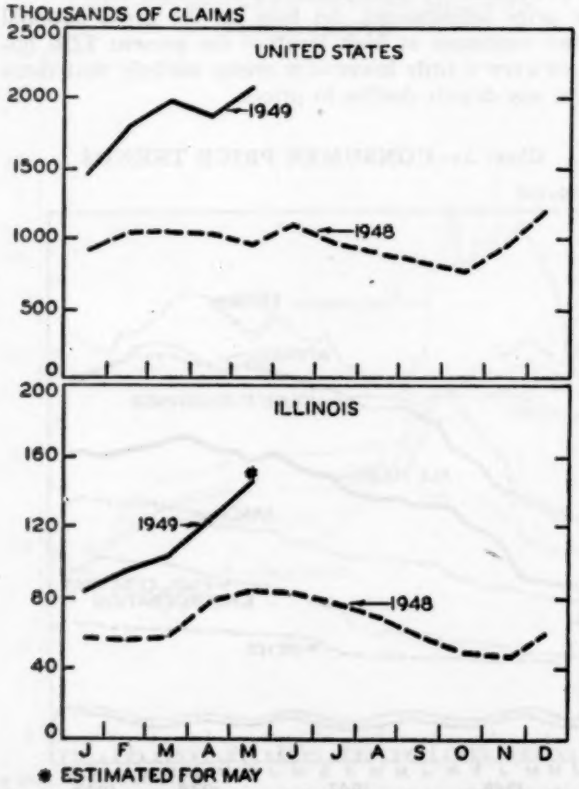
Construction and Production

According to the Chicago Association of Commerce and Industry, industrial investments in the Chicago area in June totaled $11,158,000 as compared to $9,638,000 for the same month of 1948, a gain of 15.8 percent. However, the $53,120,000 total for the first six months of this year is 16 percent below the level of a year ago.

Contracts totaling $2,885,983 have been awarded for road improvements in 33 Illinois counties by the Division of Highways, accounting for all but $775,000 of proposed work aggregating $3,641,000. The contracts cover 11 miles of concrete pavement, other types of surfacing, grading, concrete patching, and five bridge structures.

The 1947 Census of Manufactures reveals that Illinois ranks third among the states in value added to manufactured commodities. Cook County is again the outstanding manufacturing county in the United States, over $1 billion ahead of New York County, the second largest. The $4,544 million value added by manufacturing in Cook County in 1947 was $3 billion more than was added in 1939, and exceeded the value added in all but five states. Of the 127 counties in the United States with 20,000 or more manufacturing employees, eight were in Illinois. These counties — Cook, Kane, Madison, Rock Island, St. Clair, Tazewell, and Winnebago — contained 62 percent of the total Illinois population and employed over 1 million people in manufacturing.

UNEMPLOYMENT INSURANCE — CONTINUED CLAIMS



Source: Social Security Administration; Illinois Department of Labor.

Prices

The index of retail prices of goods and services purchased by moderate-income families in Chicago declined 0.5 percent between mid-April and mid-May after showing small gains during the two preceding months. The index now stands at 174.2 — one-half percent below May of 1948, and 33 percent above June, 1946, when price controls were lifted. All groups declined in May by less than 1 percent. The fuel, electricity and refrigeration, and miscellaneous groups are the only ones to remain above May, 1948, with gains of 2.4 and 6.3 percent, respectively.

Food prices in Springfield remained practically unchanged on the average during the month ending May 15 although individual price movements of some items were quite large. Largest price increases occurred in eggs, up 3.9 percent, and fruits and vegetables, up 2.9 percent. These increases were largely offset by a drop of 7.1 and 4.5 percent, respectively, in the fats and oils and dairy products groups.

Contrary to the declining food costs in Chicago and Springfield, food prices in Peoria rose 0.6 percent between mid-April and mid-May. Gains of 2.0 percent in meats, poultry and fish and of 2.9 percent in eggs were partially offset by a drop of 2.1 percent in fats and oils. Prices of other food groups changed by less than 1 percent.

Retail Trade

Bureau of the Census figures show that May retail sales in Chicago were down 5 percent from April of this year but were up 4 percent from May of last year. Total sales for the first five months of this year are 1 percent above the corresponding period of 1948. The major part of these gains was due to the 52 percent increase in automotive sales over May, 1948. On a cumulative basis, automotive sales in the first five months of 1949 are 22 percent above the first five months of last year.

Reversing the rise of last month, department store sales in May declined 3 to 4 percent on both the month-to-month and year-to-year comparison. Only Joliet, Quincy and East St. Louis were above the level of May, 1948.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

MAY, 1949

		Manufacturing[1] Employment & Payrolls (Indexes 1935-39 = 100)		Building Permits[1] (000)	Department Store Sales[2]	Bank Debits[2] (000,000)	Postal Receipts[3] (000)
ILLINOIS		**114.6**	**262.2**	**$17,321[a]**		**$8,597[a]**	**$10,091[a]**
Percentage Change from	Apr., 1949	−2.4	−2.0	−14.1	−4.4	+0.8	−8.5
	May, 1948	−6.7	−4.3	−1.4	−2.9	+1.9	+9.3
NORTHERN ILLINOIS							
Chicago		**114.3**	**261.7**	**$12,221**		**$7,852**	**$ 8,847**
Percentage Change from	Apr., 1949	−2.8	−2.3	−12.8	−4.1	+1.2	−8.5
	May, 1948	−6.3	−5.3	−1.1	−3.0	+2.2	+8.4
Aurora		**125.5**	**310.3**	**$ 428**		**$ 32**	**$ 69**
Percentage Change from	Apr., 1949	−6.0	−7.8	−17.5	+1.2	−3.8	−8.3
	May, 1948	−6.3	−13.1	+62.8	−7.1	−2.8	+2.7
Elgin		**97.1**	**221.7**	**$ 385**		**$ 21**	**$ 54**
Percentage Change from	Apr., 1949	+2.0	+4.0	+75.2	−8.1	+0.4	−7.5
	May, 1948	+0.3	−0.0	+71.2	−4.0	−1.2	+27.6
Joliet		**102.9**	**262.3**	**$ 245**		**$ 39**	**$ 46**
Percentage Change from	Apr., 1949	−2.8	−2.6	−21.6	+1.9	+0.8	−28.1
	May, 1948	−5.6	−0.7	−79.0	+19.2	+9.3	+20.5
Kankakee		**129.0**	**329.3**	**n.a.**		**n.a.**	**$ 25**
Percentage Change from	Apr., 1949	−0.9	−4.4		+2.0		+7.2
	May, 1948	−8.3	−10.9		−4.4		+19.3
Rock Island-Moline		**122.2**	**298.0**	**$ 916[b]**		**$ 25[c]**	**$ 119**
Percentage Change from	Apr., 1949	−4.2	+5.6	+177.4	n.a.	−6.0	+2.3
	May, 1948	−6.9	−2.7	+200.2		−5.5	+5.7
Rockford		**136.1**	**340.6**	**$ 466**		**$ 83**	**$ 144**
Percentage Change from	Apr., 1949	−2.3	−4.9	+54.1	−11.0	−11.8	−10.8
	May, 1948	−9.9	−16.3	+18.1	−11.5	−12.1	+21.5
CENTRAL ILLINOIS							
Bloomington		**74.7**	**167.2**	**$ 58**		**$ 38**	**$ 80**
Percentage Change from	Apr., 1949	+4.3	+1.5	−5.0	n.a.	+1.2	−1.4
	May, 1948	−21.0	−15.9	−51.5		−5.4	+24.3
Champaign-Urbana		**n.a.**	**n.a.**	**$ 273**		**$ 36**	**$ 79**
Percentage Change from	Apr., 1949	+4.7	+9.1	−17.7	n.a.	−4.9	−8.7
	May, 1948	n.a.	n.a.	−25.3		+2.4	+6.5
Danville		**61.7**	**162.0**	**$ 108**		**$ 31**	**$ 42**
Percentage Change from	Apr., 1949	−16.0	−13.2	−66.1	+1.2	−6.0	−18.2
	May, 1948	−12.9	−3.4	−42.6	−1.1	−3.0	+2.8
Decatur		**102.9**	**244.3**	**$ 650**		**$ 59**	**$ 79**
Percentage Change from	Apr., 1949	−4.2	−6.3	+96.2	−4.8	−4.0	−5.9
	May, 1948	−12.8	−11.3	+181.9	−6.2	−0.8	+28.9
Galesburg		**n.a.**	**n.a.**	**$ 158**		**n.a.**	**$ 26**
Percentage Change from	Apr., 1949	−1.7	−7.7	+0.7	n.a.		−4.8
	May, 1948	n.a.	n.a.	−14.3			+11.1
Peoria		**154.2**	**312.7**	**$ 264**		**$ 166**	**$ 153**
Percentage Change from	Apr., 1949	+1.3	+2.6	−88.3	−8.5	+1.3	−5.3
	May, 1948	+17.9	+66.5	−53.8	−4.9	+9.3	+12.8
Quincy		**111.4**	**216.4**	**$ 348**		**$ 28**	**$ 62**
Percentage Change from	Apr., 1949	−4.1	−6.2	−0.1	0.0	−3.4	−20.7
	May, 1948	−17.6	−21.5	+68.0	+4.0	−1.6	+8.7
Springfield		**236.8**	**580.8**	**$ 496**		**$ 66**	**$ 179**
Percentage Change from	Apr., 1949	−7.2	−5.4	+55.3	−7.6	−1.5	−8.6
	May, 1948	−17.8	−10.4	+60.1	−6.9	−3.0	+25.6
SOUTHERN ILLINOIS							
East St. Louis		**101.7**	**208.9**	**$ 240**		**$ 101**	**$ 39**
Percentage Change from	Apr., 1949	+1.3	+3.8	−9.2	−1.0	−1.1	−2.7
	May, 1948	−24.4	−32.2	−47.8	+4.0	−1.6	+12.9
Alton		**165.3**	**431.2**	**n.a.**		**$ 21**	**$ 21**
Percentage Change from	Apr., 1949	−1.5	+3.1		n.a.	−9.8	−12.0
	May, 1948	−10.8	−4.8			−16.9	+18.6
Belleville		**71.8**	**193.9**	**$ 64**		**n.a.**	**$ 27**
Percentage Change from	Apr., 1949	−7.3	+3.4	−18.7	n.a.		−0.2
	May, 1948	−11.1	−5.0	−68.4			+27.4

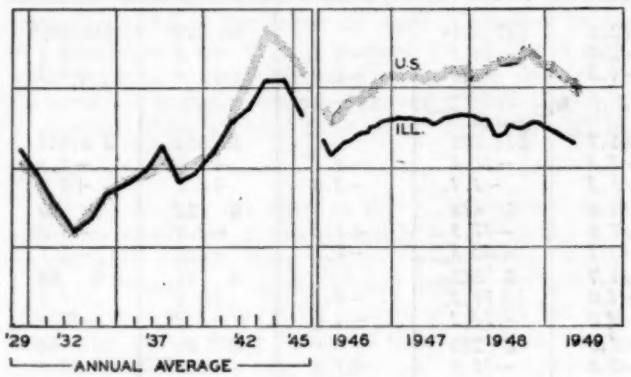
Sources: [1] Illinois Department of Labor. Data on employment and payrolls include plants in areas surrounding designated cities. [2] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. [3] Local post office reports.

[a] Total for cities listed.
[b] Rock Island only.
[c] Moline only.
n.a. Not available.

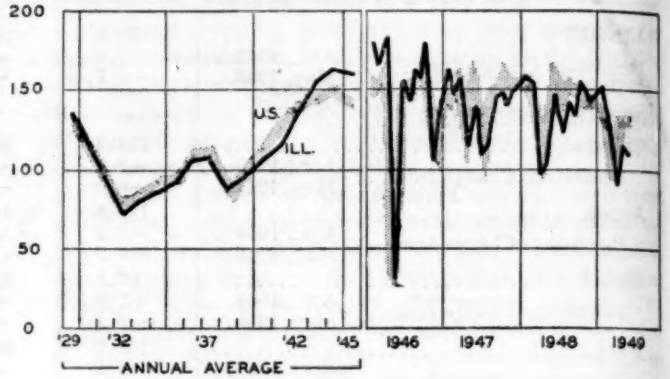
INDEXES OF BUSINESS ACTIVITY

1935-1939 = 100

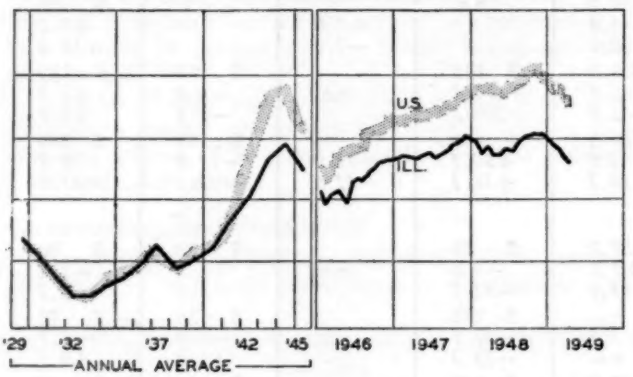
EMPLOYMENT - MANUFACTURING



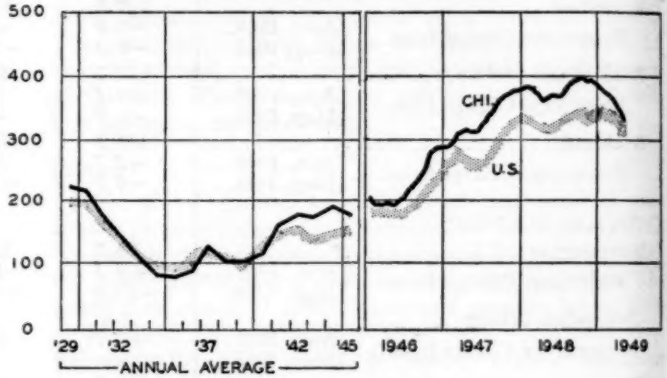
COAL PRODUCTION



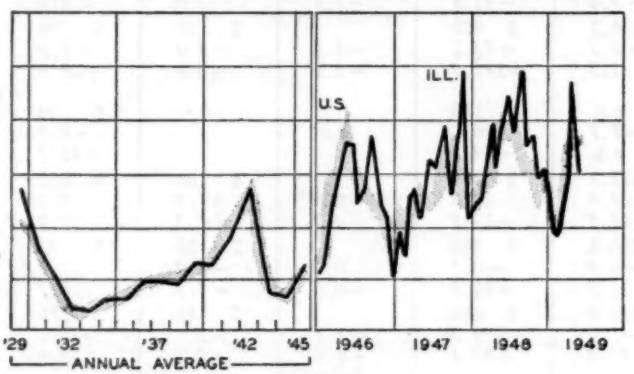
PAYROLLS - MANUFACTURING



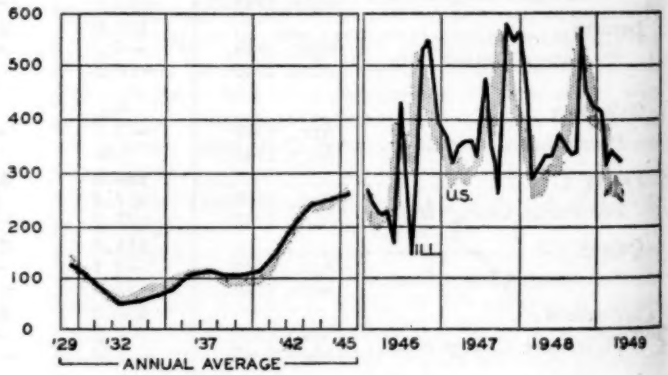
BUSINESS LOANS



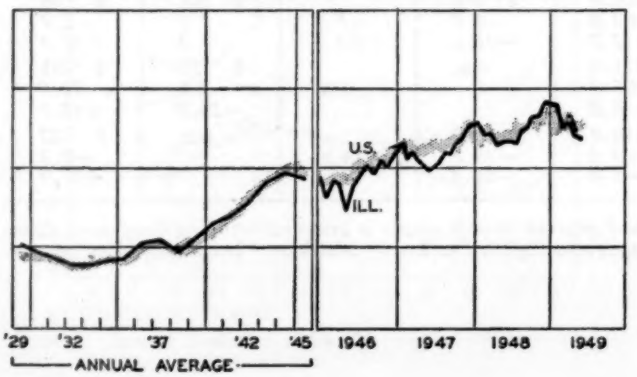
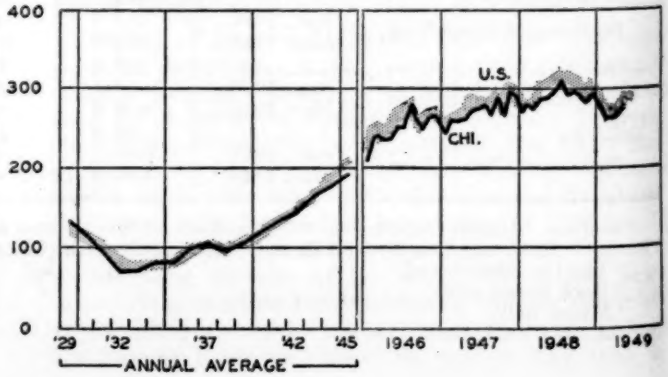
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES